

FROST INVESTMENT PHILOSOPHY



The Foundation

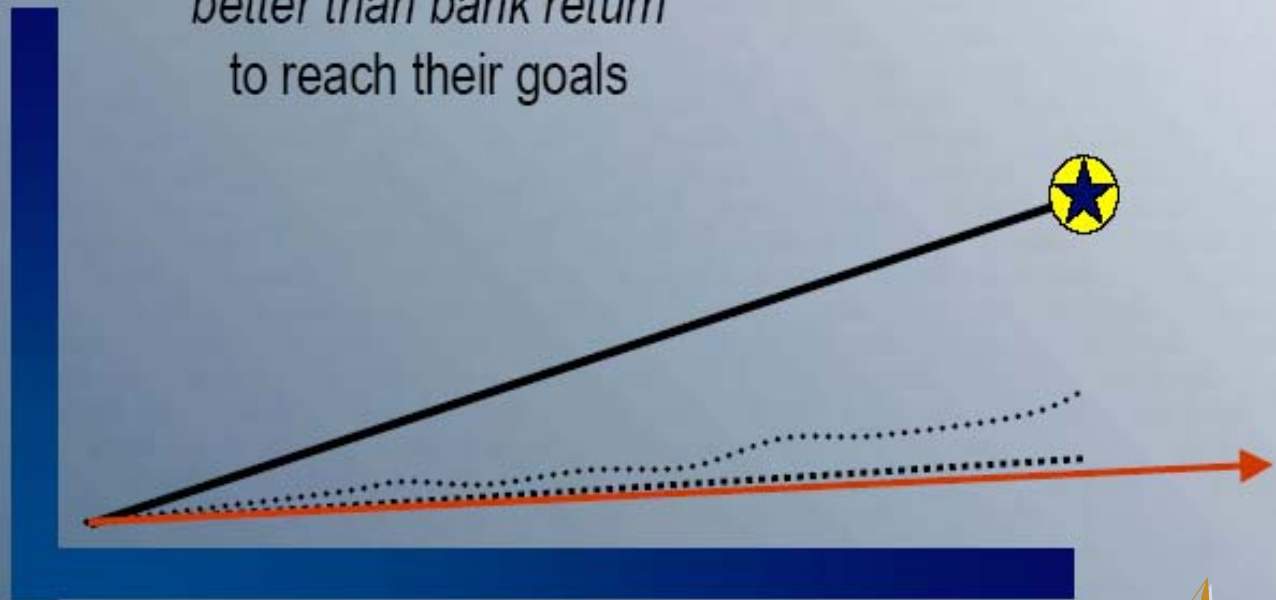


Investment Philosophy



Fact #1

Most investors require a
“better than bank return”
to reach their goals



Ask
the
‘Blue-Chip’
Experts

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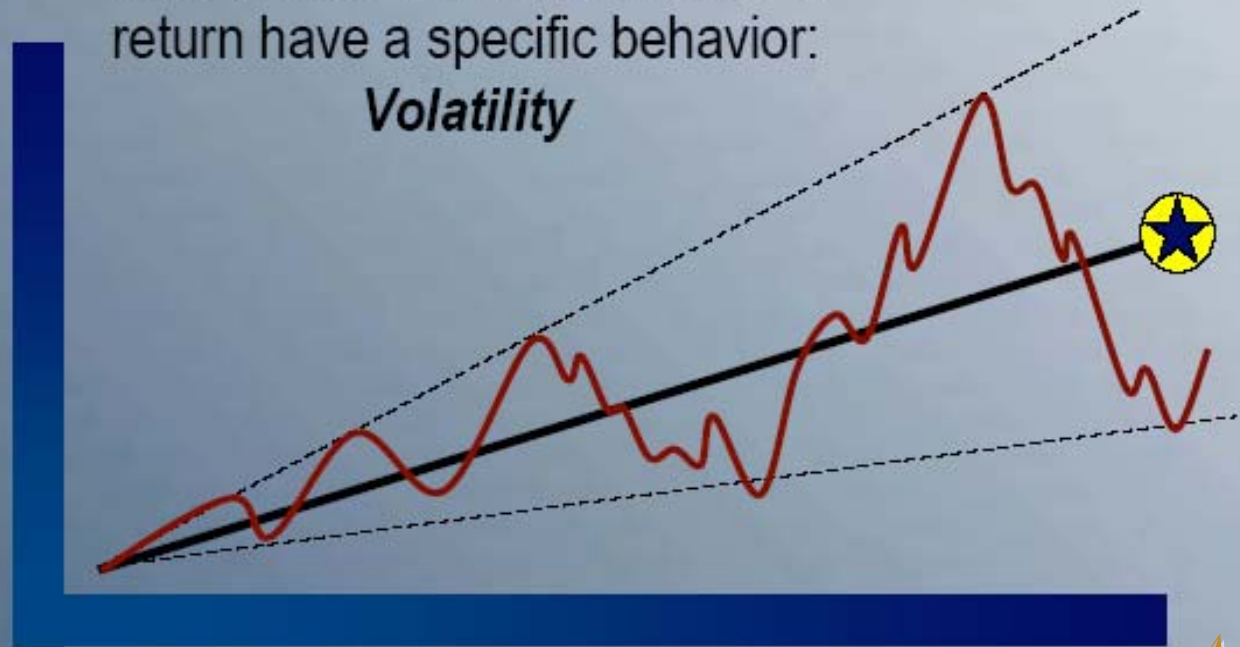
Investment Philosophy



Fact #2

Investments with higher rates of return have a specific behavior:

Volatility



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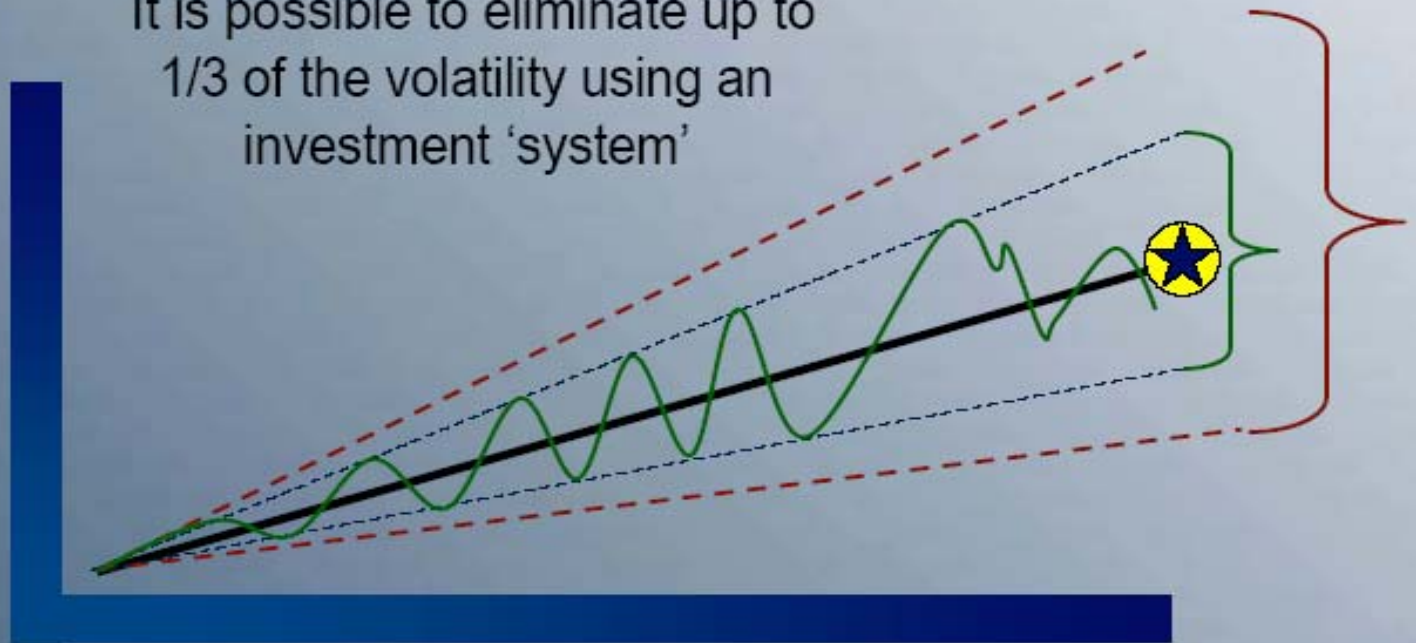
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Fact #3

It is possible to eliminate up to 1/3 of the volatility using an investment 'system'



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Investment Philosophy



What I believe in:

- 1) Portfolio systems works.
(I cannot duplicate).
- 2) Hedge Funds work.
- 3) Market Leadership makes sense.

Investment Philosophy



- 1) arrive at the goal;
- 2) highest possible predictability along the way



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Belief System

- Achieve the Financial Goal
- Having a System
- Having a specific mix
- Modern Portfolio Theory
- Efficient Frontier
- CORE Position
- Hedging to reduce risk
- Bias to capture Current strength



Asset Allocation

 ***Stocks***

 ***Bonds***

 ***Cash***

 ***Alternative Investments***

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Diversification

- ④ ***Asset Class***
- ④ ***Geography***
- ④ ***Style***
- ④ ***Market Capitalization***
- ④ ***Sector***

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Selection Process

Buy Discipline

- ④ **Morningstar rating of four stars or better.**
- ④ **1st and 2nd Quartile ratings.**
- ④ **Out-performance relative to averages and to benchmark.**
- ④ **Sharpe Ratio* better than the average fund in its classification.**
- ④ **Value Bias- Graham & Dodd, “Margin of Safety”-W. Buffet**

Sell Discipline

- ④ **Change of Manager.**
- ④ **Change of Objectives and/or Style.**
- ④ **Morningstar rating lowered to three or below.**
- ④ **Sharpe Ratio below the average fund in its class.**

**Sharpe Ratio- measures the risk/reward ratio of an investment. It compares the return of an investment, given its riskiness (as measured by standard deviation), to the return of a virtually risk-free investment, such as the 3 month treasury bill. The difference between the return of a fund & a risk-free investment is called the fund's excess return. The higher the Sharpe Ratio, the better the funds historical risk-adjusted performance.*



Investment Philosophy

Our investment philosophy is based on the belief that everyone should have a balanced portfolio. Portfolios are designed to produce the best possible rate of return available within the appropriate risk tolerance level determined by the client and defined by their objectives, time horizon and acceptable degree of risk.

We believe the best way to construct low risk-balanced portfolios is by starting with an efficient core portfolio of traditional assets (stocks, bonds, and T-bills) that is optimized and systematically rebalanced. Added to the core is an overlay of complimentary satellite positions that reduce risk and enhance returns.

We observe that allocating a portion of holdings to specific holdings that act as a “bias” towards a market sector, geographic region, asset type, or management style can improve returns incrementally.

We are biased toward the value investment style pioneered by Benjamin Graham in 1934. Research shows that value outperforms and limits portfolio volatility.

Graham & Dodd Process



For Illustrative Purposes Only

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